THE LUBRIZOL CORPORATION

1928 40th YEAR 1968

Lubrizol

ANNUAL REPORT 1968

ANNUAL MEETING

The annual meeting of shareholders will be held in the Lewis Room of the Sheraton-Cleveland Hotel, Public Square and Superior Avenue, Cleveland, Ohio at 2:30 p.m. on Monday, April 7. On or about March 4, a notice of the meeting, proxy statement and proxy will be mailed to shareholders.

FINANCIAL HIGHLIGHTS

	1968	1967	% Increase (Decrease)
Total revenues	$150,565,073	$120,181,439	25.3
Net income	16,552,697	12,391,180	33.6
Net income per share	1.67	1.26	32.5
Dividends per share	.47½	.42½	11.8
Capital expenditures	12,289,764	16,118,287	(23.8)
Depreciation	5,193,074	4,149,871	25.1
Research and development expenditures	7,278,439	6,637,999	9.6
Shareholders' equity	79,824,632	67,379,173	18.5

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DIRECTORS · OFFICERS

DIRECTORS

Raymond Q. Armington
Chairman of the Board
The TRIAX Company

M. Roger Clapp
President and Chief Executive Officer

J. N. Crawford
Vice President - Sales

Henri P. Junod
Former Vice Chairman
Pickands Mather & Company

Thomas W. Mastin
Executive Vice President
Vice President - Research and Development

F. Alex Nason
Founder of the Company
Former Chairman of the Board

John L. Palmer
Vice President - Engineering

Karl H. Rudolph
President
The Cleveland Electric Illuminating Company

Hubert H. Schneider
Partner
Henderson, Quail, Schneider & Smeltz

Kelvin Smith
Founder of the Company
Honorary Chairman of the Board

Vincent K. Smith
Founder of the Company
President, EMD Components, Inc.

Ralph S. Tyler, Jr.
Chairman of the Board

A. O. Willey
Consultant to the Company
Former Chairman of the Board

J. M. Zlatoper
Vice President - Finance
and Treasurer

Kent H. Smith, *Honorary Director*
Founder of the Company

OFFICERS

Ralph S. Tyler, Jr.	*Chairman of the Board*
M. Roger Clapp	*President and Chief Executive Officer*
Thomas W. Mastin	*Executive Vice President and Vice President - Research and Development*
J. N. Crawford	*Vice President - Sales*
M. M. McGrew	*Vice President - Manufacturing*
John L. Palmer	*Vice President - Engineering*
Robert K. Williams	*Vice President - Corporate Planning and Development*
J. M. Zlatoper	*Vice President - Finance and Treasurer*
Douglas W. Richardson	*Secretary*

TRANSFER AGENTS

The National City Bank of Cleveland
First National City Bank

REGISTRARS

The Cleveland Trust Company
Chemical Bank

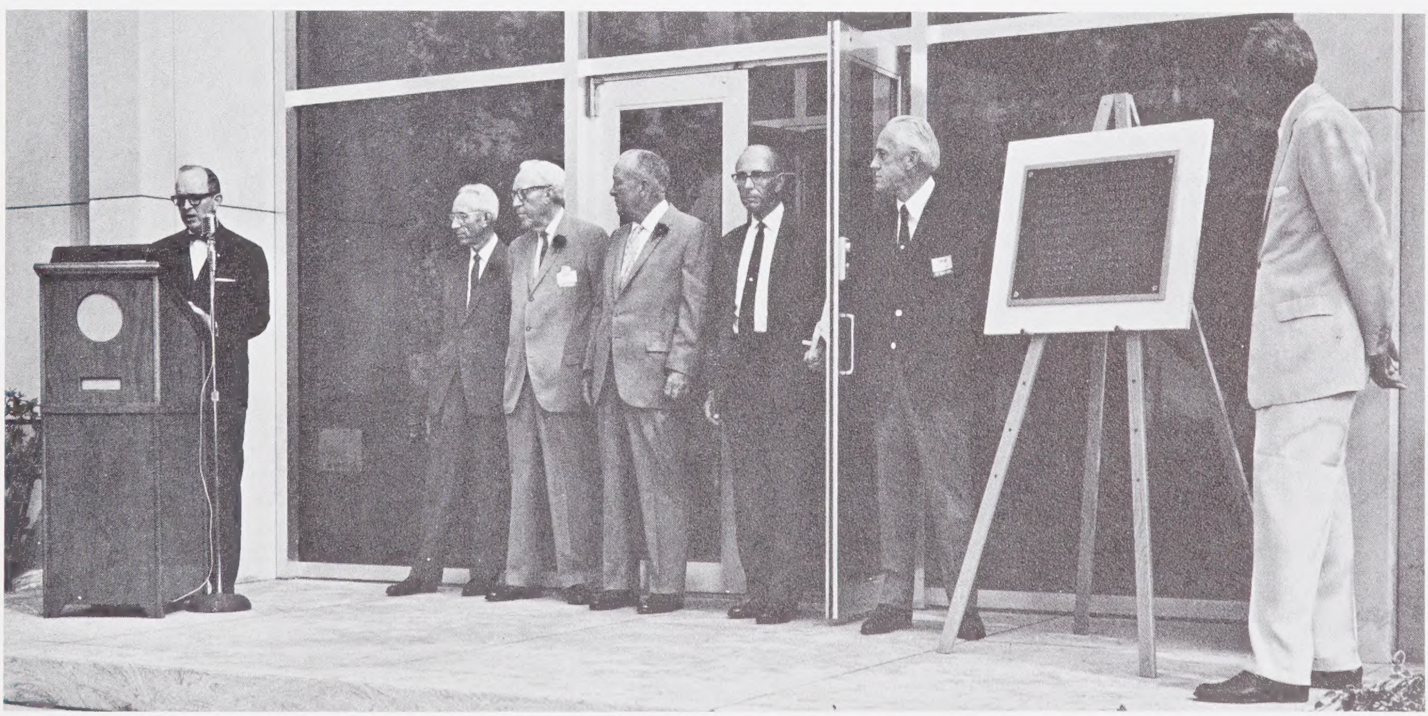
FORTY YEARS OF PROGRESS

The Lubrizol Corporation, organized on July 31, 1928 with an initial capital of $21,000, began business in a rented garage on the southeast side of Cleveland, Ohio. Early records show that among the first transactions were the purchase of $88 worth of office furniture, a $150 Ford pick-up truck and, significantly, a product formula costing $1,000.

The first product was a graphite-containing lubricant used to eliminate squeaking of automobile leaf springs. At the outset, however, research was undertaken centering on the founders' belief that chemicals could be used to improve the performance of gasoline, motor oil and other petroleum products. The forty years that have passed have demonstrated the soundness of this concept. From the small company in 1928 — a pioneer in a little-known field of chemistry — Lubrizol has become an international leader in the development, manufacture and sale of these chemicals. The initial garage has been supplanted by three major plants in the United States and eight in other countries. From the single product, the business has expanded to include more than 300 different chemical additives. The company's market, once principally northeastern Ohio, now extends to 65 countries, serviced and supplied by offices in 28 countries.

Many factors have contributed to the company's growth. The founders' respect for and belief in the individual, his talents and dignity, his achievements and right to reward, stand high on the list. No less important has been their belief in adapting the company's products to the rapidly changing requirements of the petroleum and transportation industries which it serves—a determination that has motivated continuing research and product testing throughout the company's history. Success could not have been attained, however, without constant attention to efficiency of manufacturing, imaginative and effective selling and high standards of product quality, nor without full recognition of the priority and emphasis to be given technical service work in supplying products to customers.

Like Lubrizol itself, these principles began with the company's founders, many of whom have had an opportunity to implement their beliefs by serving the company as key executives for many years. Recognizing their achievements, on August 4, 1968, as part of its anniversary observance, the company paid tribute to its six founders by dedicating the new Polymer Research Laboratory to them.



The new Polymer Research Laboratory is dedicated to the founders at the Fortieth Anniversary observance in Wickliffe.
M. Roger Clapp   Kelvin Smith   Vincent K. Smith   F. Alex Nason   Kent H. Smith   A. O. Willey   Ralph S. Tyler, Jr.

MESSAGE TO SHAREHOLDERS

The Lubrizol Corporation in 1968 marked its Fortieth Anniversary by attaining new records in total revenues and net income. The increases were the highest in the company's history. Total revenues for the year were $150,565,073, an increase of 25.3% over those for 1967, and net income was $16,552,697, an increase of 33.6% over that for the previous year.

Several favorable factors combined to produce the important sales gains. Nineteen sixty-eight was the first full year in which the current upgrading of automotive motor oil specifications in the United States was felt by the company. These more stringent requirements were introduced in 1967 by the automotive manufacturers to improve efficiency in the operation of mechanical devices installed to combat air pollution and to help in making extended car warranties feasible. Installation of devices which recirculate crankcase emissions back into the engine combustion system was required by Federal law on all 1968 model cars. This equipment placed new demands on engine lubricants and brought about an upgrading of motor oil specifications by the car manufacturers requiring higher quantities of improved chemical additives. Through an intensified research, development and testing program, Lubrizol was able to provide its customers with new additive products to meet these requirements.

Lubrizol in 1968 found an increasing market for its new series of dispersant-detergent additives for gasoline which are designed to improve overall engine cleanliness and further reduce engine emissions. A number of major gasoline refiners have become customers for this new series of products and the company believes that the field of fuel additives provides a continuing opportunity for growth.

The company also benefited from the demand for new automatic transmission and gear lubricant additives in 1968.

In summary, improvements in transportation equipment and demand for improved petroleum products, coupled with the steadily growing number of vehicles on the road and of total miles driven, continued to increase the overall market for lubricant and fuel additives throughout the world. Through the development of new and improved products, Lubrizol in 1968 made strong gains in a growing market.

The ratio of net income to total revenues increased to 11% compared with 10.3% in 1967. A substantial contributing factor was reduction in material costs effected by manufacture of raw materials that were previously purchased. A major step in this program was the completion in 1967 of a low molecular weight polybutene unit at the Deer Park plant, near Houston, Texas. This plant enabled the company in 1968 to meet its entire domestic demand for this important raw material at a considerable cost saving. A second step was the completion in 1968 of a high molecular weight polybutene plant, also at Deer Park, to supplement production of this material at the Painesville, Ohio plant, and to provide improved delivery service for customers. Further cost reductions were realized by pipeline deliveries of other materials to the Deer Park plant. Another factor in the improved return was the higher production levels in new units of greater capacity and efficiency.

In 1968 a number of Lubrizol manufacturing plants were expanded and three new plants were completed. Capital expenditures for the year were $12.3 million, compared with $16.1 million for 1967. In the five years since 1963 investment in fixed assets increased over $48 million, from $34.2 million to $82.4 million. Approximately 65% of this increase was in the United States.

Earnings and depreciation charges, both of which were substantially greater in 1968, provided funds for the $12.3 investment in fixed assets and working capital for financing the 25.3% increase in sales. In addition, the company was able to reduce borrowings under its 1967 bank credit agreement to $7,950,000 at December 31, 1968 compared with $8,250,000 at the beginning of the year. In order to provide greater flexibility, the term of the 1967 agreement was extended by twelve months, so that the company may borrow up to $15,000,000 at the prime interest rate on short term notes renewable to February 1, 1970, with the option of converting the notes outstanding at that date to five year term loans.

At the Board meeting in July, 1968, the directors authorized a two-for-one split of the company's common shares in the form of a 100% stock distribution payable August 30 to shareholders of record August 9.

At the same time, the directors increased the quarterly dividend on the old stock to 25 cents a share for the third quarter compared with the previous quarterly rate of 22½ cents a share. The new dividend is equivalent to 12½ cents a share on the split stock which was the rate paid in the fourth quarter of 1968. Total dividends for the year, adjusted for the stock split, amounted to 47½ cents a share.

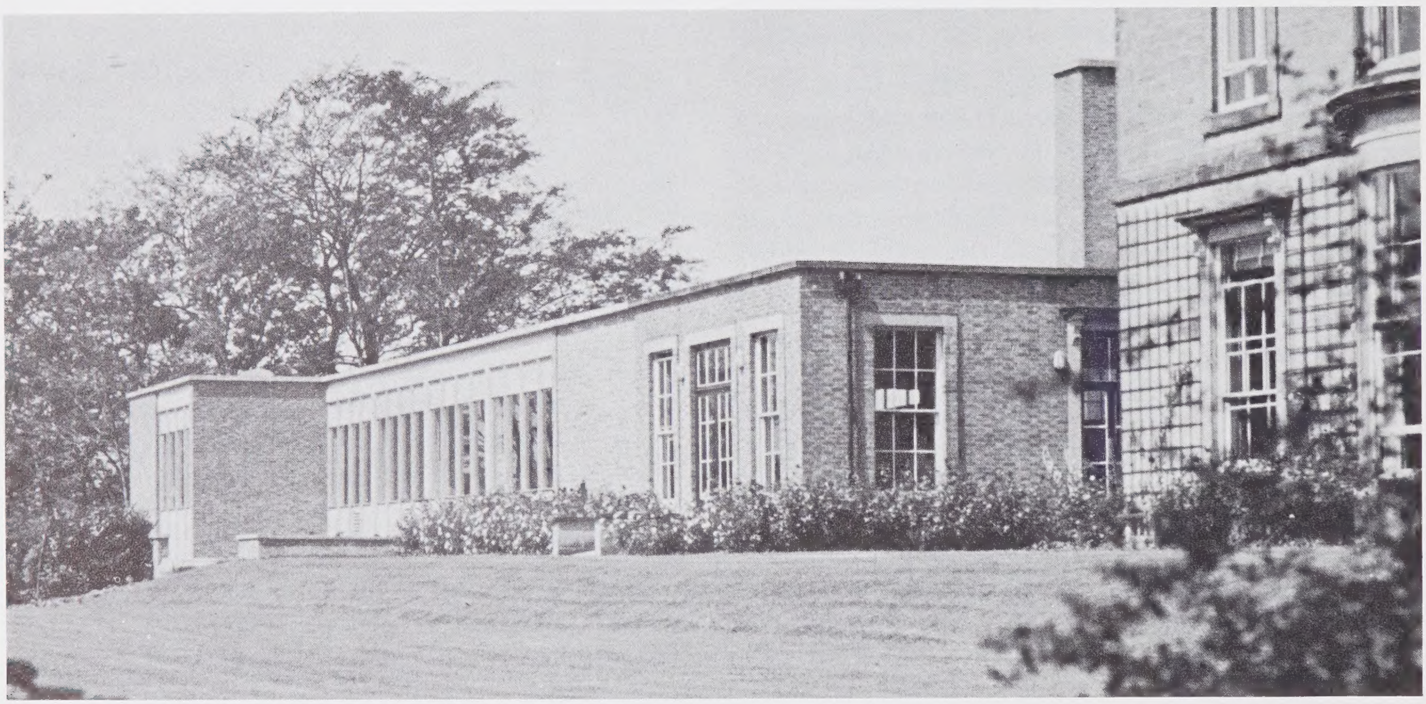
Many people in many lands contributed to Lubrizol's achievements in its fortieth year. Once more we salute the Lubrizol men and women throughout the world for a job well done. With a strong financial position, a continuing increase in demand for our products, and an expanded manufacturing capacity, we view the coming year with confidence.

M. Roger Clapp
President

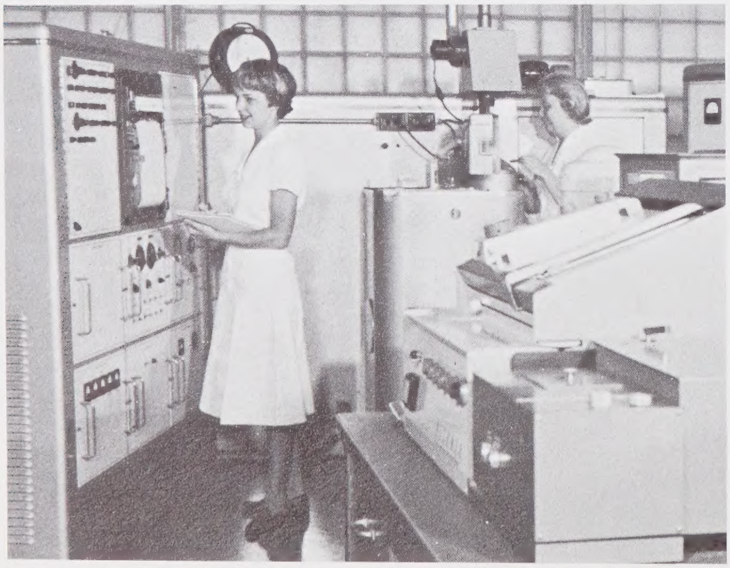
Ralph S. Tyler, Jr.
Chairman of the Board

M. Roger Clapp Ralph S. Tyler, Jr.

RESEARCH AND DEVELOPMENT



The mechanical testing laboratories at Hazelwood, England



Spectographic laboratory at Wickliffe, Ohio

Lubrizol research in 1968 continued to meet the challenge of developing new additives to fulfill changing requirements in the field of lubricants and fuels.

The company maintains a close liaison with automobile, truck and construction equipment manufacturers both in this country and abroad and this relationship has been an important factor in giving the necessary direction and lead time for the development of new products. Each change in requirements creates a new opportunity for manufacturers of petroleum additives and Lubrizol has been able to draw successfully on its extensive chemical knowledge and its talented research organization for the new products needed to strengthen its position as a world leader in the additive field.

The two most important factors behind recent changes in fuel and lubricant additive requirements

have been the emphasis placed by equipment manufacturers on long periods of trouble-free service and the programs devoted to cleaner air. The demand for better additives to meet these needs has required the development of improved dispersants for keeping engines clean and of improved antiwear and antirust additives.

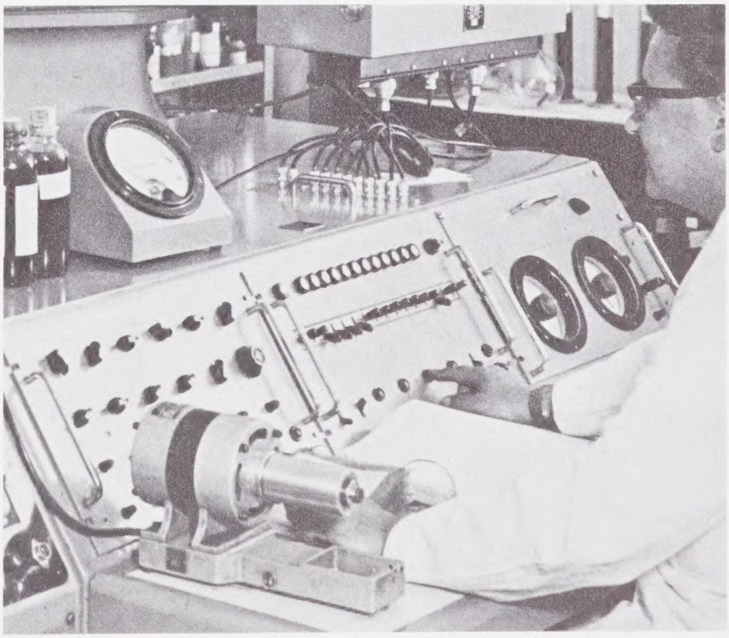
Studies indicate that a large percentage of the airborne pollutants in the United States come from motor vehicles. Steps have been taken in recent years to reduce air pollution from cars and trucks through mechanical improvements in the engines themselves and through improved fuels and lubricants. An example is the positive crankcase ventilation or PCV system which became mandatory starting with the 1968 model cars and has eliminated contaminants coming from the crankcase. Additives to help in keeping this device operating effectively were developed by Lubrizol research.

Mechanical testing to prove the effectiveness of new products under conditions as nearly representative of actual service as possible has always been an important part of product development at Lubrizol. Its mechanical testing laboratory at Wickliffe, Ohio is one of the largest and finest in the world devoted exclusively to fuel and lubricant testing. A similar testing facility is maintained at the Lubrizol International Laboratories, Hazelwood, England for testing in automotive equipment made outside the United States.

While Lubrizol's research and development activity in 1968 continued to include projects in fields apart from petroleum additives—in polymers for coatings, adhesives and construction materials—the major effort remained in the fields most closely related to the needs of the transportation and petroleum industries.

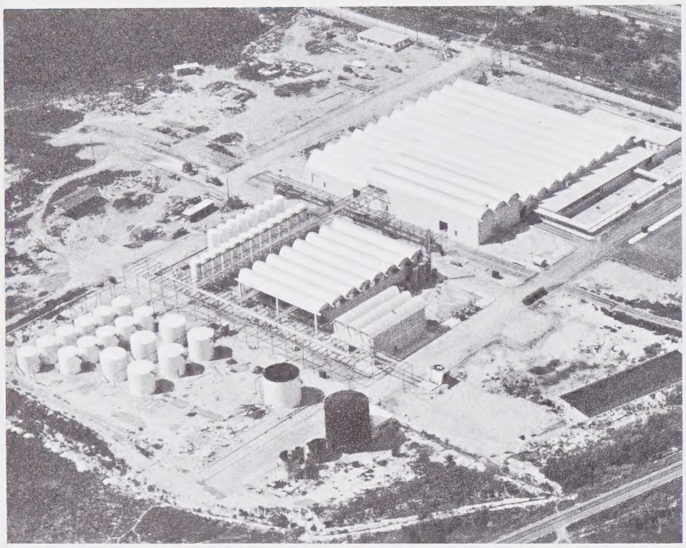
Lubrizol's total expenditures for research and development in 1968 were $7.3 million and involved the efforts of almost 300 employees.

Test data logging system at Wickliffe, Ohio



Modern testing equipment at Hazelwood, England

PLANT EXPANSION



Aerial view of the new plant at Apodaca, Mexico

Guests tour the Apodaca plant at inauguration ceremony.

The growing demand for Lubrizol products throughout the free world in 1968 required major additions to the company's existing plants as well as the construction of completely new facilities.

In the United States, expansion continued at the company's plants at Painesville, Ohio, and Deer Park, Texas. In addition, construction was started on a new plant at Bayport, Texas, to supplement production at the nearby Deer Park plant. A major portion of the company's total capital expenditures in 1968 went toward these projects.

All Lubrizol plants in other countries were expanded with the exception of the one at Monterrey, Mexico which was replaced by a new and larger facility at nearby Apodaca. Plants expanded were those at Sydney, Australia; Niagara Falls, Canada; Bromborough, England; Rouen, France and Taketoyo, Japan. In addition, new plants were completed in India and Spain and construction was begun on a new facility at LeHavre, France.

Industrias Lubrizol S.A. de C.V., which is jointly owned with Mexican interests, began operating its new manufacturing plant at Apodaca in November. The new plant will supply a number of South American countries as well as the growing Mexican market.

India, which celebrated its twentieth year of independence in 1967, is a developing nation. Increasing numbers of motor vehicles and off-the-road equipment have increased the demand for petroleum products and led to an expansion of petroleum refining capacity. In November, Lubrizol India Limited, a joint venture with the Government of India, began operating its new manufacturing plant near Bombay to provide additives for this market.

Spain is now emerging from an agricultural to an increasingly industrial economy and is a growing market for petroleum products. The new Lubrizol facility at Huelva, owned by Lubrizol Espanola S.A., has been built to supply this market.

Lubrizol France is building a new facility at Le Havre, to supplement production of its Rouen plant in supplying the six European Common Market countries and neighboring areas. The new plant will operate under the same administration as the Rouen facility.

When the new plants at Bayport, Texas and Le Havre, France are completed in 1969, Lubrizol will have four manufacturing facilities in the United States and nine in other countries.

In the last five years, the dollar volume of Lubrizol products delivered to customers outside the United States and Canada increased by approximately 100%, from $41.4 million in 1964 to $82.5 million in 1968. The expansion of overseas manufacturing facilities in 1968 will further improve the company's ability to serve its customers in the growing markets abroad.


The new plant at Huelva, Spain


The Deer Park, Texas plant was further expanded in 1968.


The new plant at Bombay, India, which was completed in November

MANAGEMENT

The year 1968 saw a number of important management changes at Lubrizol. On April 1, A. O. Willey announced his retirement as chairman and chief executive officer. Mr. Willey joined the company as director of research in 1936, later became vice president-engineering and subsequently executive vice president. He was elected president in 1962. He has made many important contributions to the progress of the company and will continue to serve Lubrizol in an advisory capacity and as a director.

Succeeding him as chairman is Ralph S. Tyler, Jr., who previously was vice chairman and general counsel. Mr. Tyler became legal counsel for Lubrizol in 1962, was elected a director the following year and vice president and general counsel in 1964. He will continue to serve as general counsel. Before joining Lubrizol, he was a partner in the law firm of Squire, Sanders & Dempsey.

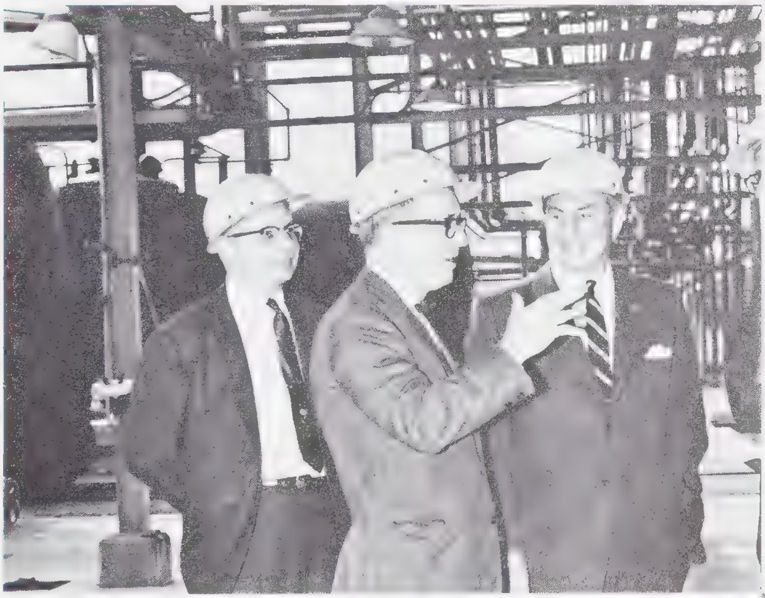
M. Roger Clapp, president of the company since 1966, has been named president and chief executive officer. Mr. Clapp joined Lubrizol in 1941 as a plant engineer. In 1950 and 1951, he supervised construction of the Deer Park, Texas plant, now Lubrizol's largest, and then served as general manager of the new plant until 1953. He later supervised construction of the Lubrizol France plant at Rouen. He was elected a director in 1956 and vice-president-manufacturing two years later. In 1961 he assumed additional responsibilities as head of the company's overseas operations. He became executive vice president in 1964 and president two years later.

Kent H. Smith, one of the six founders of the company and its first president, announced his retirement from the board of directors effective April 1, 1968. Following his tenure as president, Mr. Smith served as chairman of the board until his retirement as an officer in 1959. He had an important part in formulating the policies that guide the company and was chief executive in its early and formative years. The directors elected Mr. Smith an honorary member of the board and adopted a formal resolution in recognition of his distinguished career in business as well as in civic, educational and philanthropic activities.

At the Annual Meeting on April 1, 1968 the shareholders elected Hubert H. Schneider, a partner in the law firm of Henderson, Quail, Schneider & Smeltz, as a member of the board of directors.

F. Alex Nason Kent H. Smith Kelvin Smith

Ralph S. Tyler, Jr. Raymond Q. Armington



J. M. Zlatoper M. Roger Clapp Henri P. Junod

Thomas W. Mastin A. O. Willey Vincent K. Smith

J. N. Crawford John L. Palmer

Hubert H. Schneider Karl H. Rudolph

FINANCIAL

Lubrizol in 1968 again made a substantial favorable contribution to the United States balance of payments, in fact an even larger one than in any prior year. As in the case of the voluntary balance of payments programs for the years 1966 and 1967, the company fully complied with the requirements of United States Executive Order No. 11387 which was issued and effective on January 1, 1968.

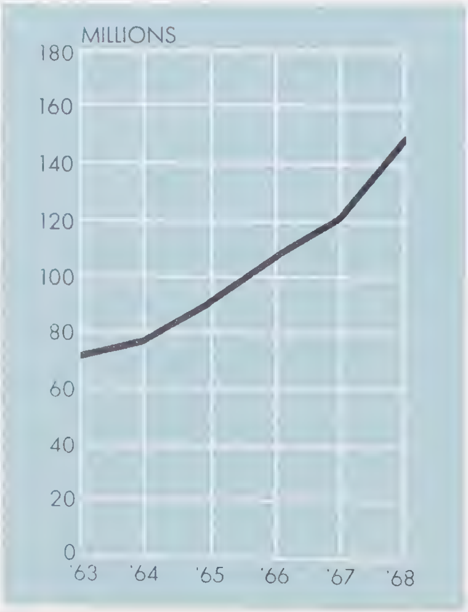
The executive order and related regulations restrict direct and indirect capital transfers which United States companies may make to their subsidiaries and affiliates outside the country and require repatriation of substantial portions of the current earnings of those subsidiaries and affiliates. In the case of Lubrizol, compliance with the order in 1968 did not restrict any overseas expansion programs, did not increase interest costs for borrowed money and did not increase liability for United States income taxes.

In 1968 the company incurred practically no losses from currency devaluations. The Brazilian Cruzeiro was the only devalued currency in which the company had significant transactions. The Cruzeiro suffered a series of devaluations totalling 29% in 1968, compared with a single devaluation of 18.5% in 1967.

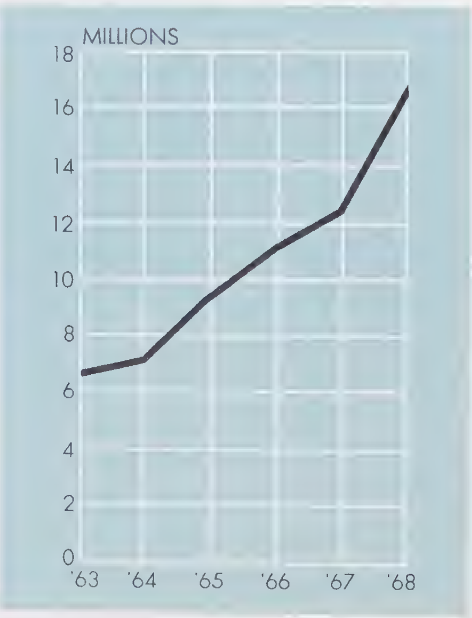
The United States income tax surcharge of 10%, effective January 1, 1968, increased the company's United States income taxes by about $1,300,000 for 1968, equal to 13 cents per share.

As in the past, the company recorded the United States investment tax credit by reducing the current income tax expense. The amount of the credit for 1968 was $593,000, the equivalent of 6 cents per share, compared with $558,000, or 5.7 cents per share for 1967.

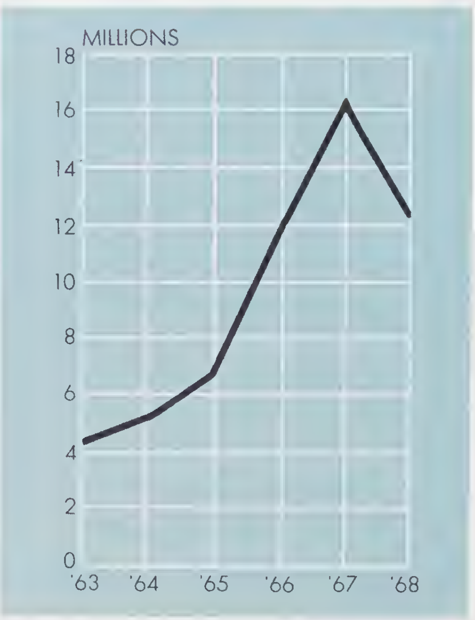
TOTAL REVENUES



NET INCOME



CAPITAL EXPENDITURES



CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year ended December 31	
	1968	1967
Revenues:		
Net sales	$149,391,177	$119,223,314
Royalties and fees	1,173,896	958,125
Total	150,565,073	120,181,439
Costs and expenses:		
Cost of sales	94,570,355	77,541,396
Selling, administrative and research expenses	22,784,346	21,025,715
Total	117,354,701	98,567,111
Income from operations	33,210,372	21,614,328
Other income (expense):		
Interest	(603,606)	(344,400)
Other items — net	252,931	198,252
Income before taxes on income	32,859,697	21,468,180
Provision for taxes on income	16,307,000	9,077,000
Net income	16,552,697	12,391,180
Retained earnings, January 1	48,303,637	40,089,220
Total	64,856,334	52,480,400
Less dividends (per share: 1968 — $.47½; 1967 — $.42½)	4,701,677	4,176,763
Retained earnings, December 31	$ 60,154,657	$ 48,303,637
Net income per share	$1.67	$1.26

The notes to financial statements on Page 16 are an integral part of this statement.

ASSETS	December 31 1968	December 31 1967
Current assets:		
Cash	$ 7,270,072	$ 4,322,831
Receivables:		
Customers	22,047,514	16,679,656
Other	1,444,149	2,103,006
Inventories — at cost (first-in first-out method) not in excess of market:		
Finished products	6,578,481	5,276,357
Products in process	7,814,352	6,965,551
Raw material and supplies	9,356,759	7,649,159
Prepaid expenses	2,006,557	1,833,223
Total current assets	56,517,884	44,829,783
Plant property — at cost:		
Land and improvements	6,526,673	5,347,197
Buildings and improvements	18,958,539	17,051,276
Machinery and equipment	52,445,699	41,518,938
Construction in progress	4,500,132	7,487,240
Total	82,431,043	71,404,651
Less accumulated depreciation	28,949,686	24,589,551
Plant property—net	53,481,357	46,815,100
Patents and trademarks — at cost less accumulated amortization	702,469	764,736
Other assets:		
Investments and advances	2,664,858	1,610,400
Miscellaneous	142,458	256,679
Total other assets	2,807,316	1,867,079
TOTAL	$113,509,026	$94,276,698

ALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31 1968	1967
Current liabilities:		
Loans payable by a foreign subsidiary to banks	$ 1,012,750	$ 1,012,750
Accounts payable:		
Trade	7,917,663	6,935,832
Other	980,635	893,536
Accrued expenses:		
Income taxes	9,123,928	3,783,015
Other taxes	868,951	666,615
Employee compensation	2,396,635	2,082,629
Other	711,595	745,555
Total current liabilities	23,012,157	16,119,932
Notes payable to banks (interest at prime rate)—Note 3	7,950,000	8,250,000
Deferred cash grants from a foreign government (being amortized over the lives of the related assets acquired)	1,441,262	1,398,625
Deferred foreign income taxes—Note 2	1,280,975	1,128,968
Shareholders' equity—Notes 4 and 5:		
Common shares without par value:		
Authorized—10,000,000 shares		
Outstanding—9,916,022 shares in 1968 and 9,845,966 shares in 1967 (after deducting 22,863 treasury shares in both years)	19,669,975	19,075,536
Retained earnings	60,154,657	48,303,637
Total shareholders' equity	79,824,632	67,379,173
TOTAL	$113,509,026	$94,276,698

The notes to financial statements on Page 16 are an integral part of this statement.

1. Principles of Consolidation

All subsidiaries are wholly-owned and consolidated.

The accounts of the subsidiaries located outside the United States have been translated into United States dollars as follows: Property, related depreciation and inventories at rates in effect at the time of acquisition; other assets and liabilities at rates in effect at year-end; other income accounts at average rates for the year. No significant gains or losses resulted from translation of foreign currencies.

A summary of net assets of subsidiaries located outside the United States and Canada at December 31, 1968 follows:

	(In thousands of dollars)			
	England and Europe	Central and South America	Other	Total
Current assets	$15,575	$5,171	$6,817	$27,563
Current liabilities	8,319	384	506	9,209
Working capital	7,256	4,787	6,311	18,354
Plant property — net	14,781	406	662	15,849
Other assets	149	3	1,143	1,295
Deferred cash grants and income taxes	(2,640)	(86)	4	(2,722)
Net assets	$19,546	$5,110	$8,120	$32,776

2. Depreciation

Depreciation of $5,193,074 was computed using the straight-line, sum of the years-digits and declining-balance methods, at rates based on the useful lives of the assets. The same methods were used for financial reporting and income tax purposes except in the case of some foreign subsidiaries. As to those subsidiaries, the income taxes related to the differences have been deferred to future years.

3. Notes Payable to Banks

Under the company's amended credit agreement with three banks, it may borrow up to $15,000,000 at the prime interest rate, on short-term notes renewable to February 1, 1970. It has the option to convert the notes outstanding at that date to term loans payable in ten equal semi-annual installments beginning August 1, 1970, with interest at ¼% over the prime rate.

4. Common Shares

A two-for-one split of the common shares was made in the form of a 100% stock distribution paid August 30, 1968. Retroactive effect has been given in the financial statements and these notes.

5. Employee Stock Options

At the beginning of the year options were outstanding to purchase 235,312 shares. During the year options for 24,300 shares were granted, options for 790 shares were surrendered, and options for 70,056 shares were exercised for a total consideration of $594,439, which was credited to the common shares capital account. At the end of the year options were outstanding for 188,766 shares and options for 398,850 shares were available for grant. The option price is the fair market value at the date of grant.

6. Retirement Plans

The company and some of its subsidiaries have non-contributory retirement plans for hourly and salaried employees. The cost of these plans charged to operations was $1,648,292. The practice is to fund accrued costs of the plans. At December 31, 1968, there was no unfunded past service cost and pension fund assets exceeded the actuarially computed value of vested benefits.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year Ended December 31	
	1968	1967
SOURCE OF FUNDS		
Operations:		
Net income	$16,552,697	$12,391,180
Charges to operations not requiring an expenditure of funds:		
Depreciation	5,193,074	4,149,871
Deferred foreign income taxes	152,007	150,627
Other — net	(67,258)	(20,138)
Total	21,830,520	16,671,540
Borrowing (repayments) under credit agreement	(300,000)	7,500,000
Increase in accrued expenses	5,823,295	2,031,789
Increase in accounts payable	1,068,930	339,868
Cash grants from a foreign government	187,616	1,472,881
Proceeds from stock options exercised	594,439	594,347
Other — net	461,397	85,179
Total	$29,666,197	$28,695,604
APPLICATION OF FUNDS		
Capital expenditures	$12,289,764	$16,118,287
Dividends on common shares	4,701,677	4,176,763
Increase in receivables and inventories	8,567,526	6,974,267
Decrease in loans payable by foreign subsidiaries to banks	—	1,087,475
Loan to affiliated company	1,100,000	—
Investments in affiliated companies	59,989	983,770
Increase (decrease) in cash	2,947,241	(644,958)
Total	$29,666,197	$28,695,604

ACCOUNTANTS' OPINION

To the Shareholders and Board of Directors of The Lubrizol Corporation:

We have examined the consolidated balance sheet of The Lubrizol Corporation and its subsidiaries as of December 31, 1968 and the related consolidated statements of income and retained earnings and of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated statements present fairly the financial position of the companies at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Cleveland, Ohio
February 27, 1969

Haskins & Sells

	1968	1967
CONSOLIDATED STATEMENT OF FINANCIAL POSITION		
Current assets	$ 56,517,884	$ 44,829,783
Current liabilities	23,012,157	16,119,932
Working capital	33,505,727	28,709,851
Plant property — at cost	82,431,043	71,404,651
Accumulated depreciation	(28,949,686)	(24,589,551)
Other assets	3,509,785	2,631,815
Total	90,496,869	78,156,766
Less:		
Long-term debt	7,950,000	8,250,000
Deferred cash grants	1,441,262	1,398,625
Deferred foreign income taxes	1,280,975	1,128,968
Net assets — Shareholders' equity	$ 79,824,632	$ 67,379,173
CONSOLIDATED STATEMENT OF INCOME		
Revenues:		
Net sales	$149,391,177	$119,223,314
Royalties and fees	1,173,896	958,125
Total	150,565,073	120,181,439
Costs and expenses	117,705,376	98,713,259
Income before taxes on income	32,859,697	21,468,180
Provision for taxes on income	16,307,000	9,077,000
Income before deduction of minority interest	16,552,697	12,391,180
Less minority interest	—	—
Net income	$ 16,552,697	$ 12,391,180
OTHER DATA		
Capital expenditures	$ 12,289,764	$ 16,118,287
Depreciation	5,193,074	4,149,871
Number of employees at end of year	2,646	2,472
Number of shareholders at end of year	6,230	5,469
Common shares outstanding at end of year	9,916,022	9,845,966
Shareholders' equity per share at end of year	$8.05	$6.84
Return on average shareholders' equity	22%	20%
Net income per share	$1.67	$1.26
Dividends per share	.47½	.42½

NOTE: The number of shares and per share amounts have been adjusted to give retroactive effect to stock splits, six-for-one in 1964, three-for-two in 1966 and two-for-one in 1968.

SUMMARY

1966	1965	1964	1963	1962	1961	1960	1959
$ 38,507,841	$37,791,020	$33,362,430	$29,592,317	$25,011,148	$20,780,139	$19,154,287	$18,913,114
14,835,750	13,392,247	10,910,607	10,554,765	8,047,575	5,952,525	6,785,690	7,562,624
23,672,091	24,398,773	22,451,823	19,037,552	16,963,573	14,827,614	12,368,597	11,350,490
55,989,722	44,684,728	39,079,092	34,174,913	30,328,143	27,820,065	25,625,796	22,607,107
(21,050,299)	(18,625,433)	(16,788,472)	(14,720,247)	(12,864,755)	(10,954,575)	(9,283,749)	(7,788,249)
1,687,236	1,521,698	2,027,329	2,230,218	1,786,317	925,809	1,257,583	1,560,218
60,298,750	51,979,766	46,769,772	40,722,436	36,213,278	32,618,913	29,968,227	27,729,566
750,000	1,000,000	2,000,000	—	—	—	—	—
—	—	—	—	—	—	—	—
978,341	—	—	—	—	—	—	—
$ 58,570,409	$50,979,766	$44,769,772	$40,722,436	$36,213,278	$32,618,913	$29,968,227	$27,729,566
$106,101,731	$92,019,801	$78,713,525	$71,687,103	$65,601,605	$61,373,492	$58,803,719	$57,906,060
1,096,329	490,458	27,483	7,740	—	—	—	—
107,198,060	92,510,259	78,741,008	71,694,843	65,601,605	61,373,492	58,803,719	57,906,060
87,867,164	75,890,016	65,883,799	59,763,071	55,343,159	52,643,400	50,290,514	47,307,273
19,330,896	16,620,243	12,857,209	11,931,772	10,258,446	8,730,092	8,513,205	10,598,787
8,185,000	7,020,000	5,795,765	5,291,559	4,518,584	3,992,421	3,851,056	5,161,283
11,145,896	9,600,243	7,061,444	6,640,213	5,739,862	4,737,671	4,662,149	5,437,504
—	—	—	55,982	243,524	284,797	272,392	367,314
$ 11,145,896	$ 9,600,243	$ 7,061,444	$ 6,584,231	$ 5,496,338	$ 4,452,874	$ 4,389,757	$ 5,070,190
$ 12,134,232	$ 6,712,924	$ 5,301,575	$ 4,399,363	$ 2,887,310	$ 2,483,831	$ 3,175,013	$ 3,750,051
3,133,510	2,717,407	2,391,836	2,333,629	2,249,923	1,936,145	1,634,624	1,412,357
2,252	2,066	1,899	1,730	1,628	1,546	1,483	1,392
5,228	4,385	3,968	1,014	718	637	344	214
9,768,092	9,715,196	9,692,036	9,701,640	9,701,640	9,730,440	9,757,440	9,793,440
$6.00	$5.25	$4.62	$4.20	$3.73	$3.35	$3.07	$2.83
20%	20%	17%	17%	16%	14%	15%	20%
$1.14	$.99	$.73	$.68	$.57	$.46	$.45	$.52
.40	.35	.27¾	.21⅓	.18	.18	.16⅔	.16⅔

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